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UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL ADJUSTMENT ADMINISTRATION

THE AGRICULTURAL ADJUSTMENT ACT AND ITS OPERATION

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THE AGRICULTURAL ADJUSTMENT ACT, approved May 12, 1933, is the means of effectuating the policy of Congress to restore the purchasing power of American farmers to the level which it occupied in the 5-year period immediately preceding the World War, during which period the national income was equitably balanced as between agriculture and other industry.

Since the World War agricultural production has not been contracted as effective export and domestic demand for farm goods has contracted; oversupply of agricultural commodities has resulted and has reduced farm prices; and agricultural purchasing power has fallen far below parity with the purchasing power of other industries.

The Agricultural Adjustment Act, therefore, in order to remedy these conditions, empowers the President, through the Secretary of Agriculture and the Agricultural Adjustment Administration set up within the Department of Agriculture, to assist farmers in adjusting their production of certain basic commodities to meet effective demand without sacrificing income and to put into effect marketing agreements on agricultural commodities, designed to insure fair prices to producers, efficient and equitable distribution of the products, and protection for consumers of the finished goods.

THE AGRICULTURAL ADJUSTMENT ACT AND ITS OPERATION

As passed by Congress and approved by the President on May 12, 1933, the Agricultural Adjustment Act, properly titled "An Act to Relieve the Existing National Economic Emergency by Increasing Agricultural Purchasing Power", contains three distinct parts.

One part empowers the President, through the Secretary of Agriculture to take measures to increase agricultural purchasing power by raising farm income; another empowers the Farm Credit Administration to take measures to lighten the load of farm mortgages; the third grants to the President certain powers in regard to the national currency and credit.

Only one of these parts, the first, is under the jurisdiction of the Department of Agriculture, and the Agricultural Adjustment Administration has been especially created to accomplish this task. The farm-mortgage section of the Act is administered by the Farm Credit Administration, created on May 12 by executive order of the President. Information on its provisions and working should be obtained from Federal land banks and from county extension agents. The currency and credit powers in the third portion of the Act are granted to the President himself.

The Act declares that it is the policy of Congress to raise the purchasing power of American farmers to the level which it occupied in the "base period", the five years 1909 to 1914, when agricultural and industrial production and prices were well balanced and the national income was equitably distributed.

This policy of increasing agricultural purchasing power is necessary because of the sharp and inequitable decline of that purchasing power since the World War and more especially during the four years beginning with 1929, when farm incomes decreased more rapidly and to a greater degree than did the incomes of other industries.

Reasons for this decline in farm income and buying power were numerous. Production of farm goods in the United States was greatly increased during the war period when European nations were unable to produce their own foods and fabrics and depended upon the United States for those commodities. More than 50 million acres of land in this country were thrown into agricultural production during those years, under the stimulus of heavy demand and high prices.

Shortly after the World War ended European nations began to return to their pre-war production levels and to cease to need American products in anything like such volume as they had required during the war.

The foreign demand for American farm products shrank steadily in the last decade; domestic demand also declined; the wide use of

automobiles, trucks, and tractors alone replaced livestock which had consumed the product of nearly 20 million acres. Farm production had expanded in response to the war demands, but failed to contract after that need had passed. Continued production, in the face of declining demand, led to falling prices and to the physical accumulation of excess supplies.

The depression beginning in 1929 still further reduced the demand for farm products, weakened the urban buying power for products sold on the domestic market, and sharply curtailed the consumption of products, such as cotton, which go to industrial uses.

Neither the 6 million individualistic farmers nor the institutions engaged in marketing the several products were able to provide the needed control.

American farmers did not—partly because they could not—scale down their production in accordance with smaller demand, as rapidly as they had increased it to meet emergency demand volume. The total volume of American agricultural production in 1932—a year when growing conditions were below average—was 4 percent above the average for the years 1919–1927, which included a period when Europe, because of the war, was still drawing heavily upon this country for agricultural products, and when domestic purchasing power was high.

In 1929 American farmers exported 12.2 percent, by value, of their total production; in 1930 only 10.2 percent; and in 1931 and 1932 less than 7 percent.

With this sustained production and decreased export market, prices inevitably dropped. Falling prices did not, in this case, check production but, on the contrary, increased production. American farm goods were forced on the market for what they would bring, or accumulated in burdensome surpluses, and returns to farmers fell until in March 1933 the purchasing power of agricultural goods, in terms of commodities that farmers buy, was less than half what it had been in the five years before the World War.

The disparity between the prices of farm products and other products had existed since 1921 and was sharply intensified from 1929 to 1933. Cash income available for farm living expenditures dropped from 6 billion dollars in 1925 to 1.3 billion in 1932. The low buying power of farmers intensified the industrial depression and weakened the agricultural assets behind the whole national credit structure.

Farmers drastically reduced their operating expenditures for equipment, hired labor, buildings, and material, thus intensifying industrial inactivity and unemployment. But they could not reduce their fixed charges of interest, debt, and taxes. They therefore produced more and more farm goods to sell at low prices, in the effort to get enough money to meet these charges. Thus they increased the very surpluses that already were piling up and further depressed farm prices and farmers' income.

As farmers' incomes and buying power fell off, they ceased to be customers for the goods and services that cities must sell, and thus their condition contributed increasingly to unemployment in the cities and to stagnation of business and industry. Farmers and other rural people normally buy 25 percent of all products and

services produced in the Nation. With their purchasing power reduced by 40 percent between 1929 and 1932 they accounted, it is estimated, for some 4 million of the urban and industrial workers who were out of jobs in 1932.

The policy of Congress to "relieve the existing national economic emergency", and to accomplish this relief by "increasing agricultural purchasing power" was responsible for the passage of the Agricultural Adjustment Act.

ADMINISTRATION OF THE ACT

In order to apply the powers and achieve the purposes of the Adjustment Act, the Secretary of Agriculture set up within the Department of Agriculture a new organization, the Agricultural Adjustment Administration, devoted specifically to these duties. The Administration's activities are coordinated closely with those of the rest of the Department. It draws upon the scientific knowledge, the accumulated statistical data, and the informational, organizing, and educational facilities of the other bureaus and offices within the Department.

The organization is headed by an Administrator who is aided in directing its activities by three assistant administrators. Each assistant also is director of one of three divisions, the Commodities Division, the Division of Information, and the Division of Program Planning. The organization also includes a general counsel, who is director of the Legal Division; a comptroller; director of the Finance Division; manager of the Cotton Pool; a special assistant in charge of Business Management; a special assistant in charge of a Coordination Office; and an economic adviser.

The Commodities Division is concerned with problems of production and distribution, both under production control contracts and licenses and marketing agreements. Sections included in the division are; Wheat Production; Grain Processing and Marketing; Cotton Production; Cotton Processing and Marketing; Dairy; Tobacco; Sugar; Rice; General Crops; Cattle and Sheep; Field Investigation; Contract Records; and Compliance.

The Division of Information is concerned with dissemination of information on the Administration's activities. It also includes the Consumers' Counsel, whose function is to protect consumers against pyramiding of processing taxes, profiteering and unfair charges imposed under the cover of adjustment of agricultural products.

Correlating adjustments of the various commodities into a unified program for the whole agricultural industry, and adapting the program to long-time needs are functions of the Program Planning Division.

Broad and flexible powers, and a wide variety of means and methods, are provided for effectuating the purposes of the Act.

Flexibility and variety in these methods are necessary because agriculture is a complex industry with wide differences among the problems of different commodities and of different regions. It is essential that the Agricultural Adjustment Administration be able to change strategy and tactics of the attack as the problems themselves differ and as the general situation changes.

WHAT "PRE-WAR PARITY" MEANS

It was the policy of Congress to restore the pre-war parity of agricultural purchasing power. Such a restoration means that farmers will again be as good customers for city goods and services as they were in 1909–1914.

It does not necessarily mean that prices, in dollars, of farm products will be the same as they were before the war, but it means that farmers selling the same volume of farm goods will be able to buy, with their returns, the same volume of manufactured goods that they were able to buy in 1909–1914.

Farmers, because of the low prices of farm goods, have been put at a disadvantage, and this disadvantage has adversely affected the economic situation of the entire Nation as well as that of the farmers themselves. The policy of Congress in passing the Agricultural Adjustment Act was to remedy this situation.

In dealing with individual commodities except tobacco, the base period to which purchasing value of the commodity is to be adjusted is the same period, 1909–1914, to which the general purchasing power of American agriculture is to be adjusted according to the policy of Congress. For tobacco the base period is the post-war years 1919–1928. This variation is caused by the fact that tobacco-consuming habits of the entire world have changed since the war, and pre-war conditions no longer accurately represent the present condition of the tobacco industry.

The Act declares also that it is the policy of Congress to restore the agricultural purchasing power by gradually correcting the present inequalities as rapidly as is feasible in view of consumptive demand in domestic and foreign markets.

One important function of the Adjustment Administration is to increase the export sales of surplus agricultural products wherever that can be done without putting undue pressure on world markets. Efforts to explore and open new export outlets for surpluses of American farm products were among the first enterprises of the Agricultural Adjustment Administration.

At the same time that farm prices are being increased the interests of the consumer are safeguarded under the Adjustment Act.

The power to increase farm returns must be limited, if undue burdens on consumers are to be avoided and agricultural stability maintained. The Act embodies several provisions for the protection of consumers—the parity price maximum, the limitation on the proportion of the consumers' dollar returned to farmers, and the direction that processing taxes, even with the parity limits, shall not be such as to unduly depress consumption.

PRODUCTION-ADJUSTMENT POWERS

Roughly, the powers under the Adjustment Act fall into two groups.

One group enables the Agricultural Adjustment Administration to take measures to balance production of farm goods with the effective demand for them, and thus to bring about increased farm income and farm purchasing power with a sound economic base resting upon the laws of supply and demand.

Authority granted for this purpose recognized that when the Act was passed the farmers' purchasing power was restricted by overproduction and over-supply of farm products. However, adjustment does not mean only curtailment of production. This was illustrated by the widespread drought which threatened farm purchasing power in certain areas because of restricted production. In this case, benefit payments became a form of crop insurance, rented acres were released for the production of needed forage, cattle were purchased under adjustment provisions, and other steps were taken to aid agriculture in the stricken area.

The authority granted by the Act enables the United States Government to assist farmers in making adjustment in production which it would be impossible for them to make unaided and acting as individuals. It provides a method of giving financial assistance to farmers who cooperate with the Government in making necessary adjustments of production and are entitled to receive compensatory payments, based upon their volume of production. Noncooperating producers are not entitled to such payments.

MARKETING-AGREEMENT POWERS

The second group of powers contained in the Act is also directed toward giving the producer of agricultural commodities more nearly his fair share of the national income. These powers are conferred by the marketing-agreement section of the Act and relate to prices to producers and to consumers and to trade practices among processors and distributors of farm products. They make the Government both an arbiter and a partner in agreements among associations of producers, processors, and distributors of farm goods.

Like the measures for adjusting production, these powers are aimed at assisting private industry, in this case processors and distributors as well as producers, so to change its practices as to benefit all interests engaged in getting farm products from the soil to the consumer, and to equal or approach parity prices to farmers and at the same time to protect the consumer from any unfair increase in his costs.

Just as farmers are unable to adjust their production without the aid of the centralizing power of the Government, distributors are unable, without that same assistance, to cooperate in avoiding certain wasteful and damaging distribution practices.

Both groups of powers conferred by the Agricultural Adjustment Act, then, are directed toward economically balanced production of agricultural commodities on the one hand, looking toward a fair share of the national income for farmers, and on the other hand a system of distributing farm products that will be economically sound.

HOW PRODUCTION IS ADJUSTED

The general statement of the Act on adjustment of production is:

SEC. 8. In order to effectuate the declared policy, the Secretary of Agriculture shall have power—

(1) To provide for reduction in the acreage or reduction in the production for market, or both, of any basic agricultural commodity, through agreements with producers or by other voluntary methods, and to provide for rental or

benefit payments in connection therewith or upon that part of any basic agricultural commodity required for domestic consumption, in such amount as the Secretary deems fair and reasonable, to be paid out of any moneys available for such payments * * *.

This broad provision permits the Secretary, with the approval of the President, " to make such regulations with the force and effect of law as may be necessary to carry out the powers vested in him by this title." The actual operation of the Act is through such regulations and through agreements with producers and distributors, rather than through specific provisions written into the law itself. This gives the law its flexibility and mobility and makes it possible for the Secretary, through the Agrcultural Adjustment Administration, to change existing regulations or to issue new ones when the situation changes, without depending on Congressional action to amend the law itself.

Under the original Act, reductions in acreage or in production could be made on arrangements voluntary on the part of the producer. The Bankhead Act, enacted during the last session of Congress, set a maximum limit for cotton production, provided for allotment of production, and imposed on producers an ad valorem tax on marketing of cotton above their allotment. The Kerr-Smith Act, also passed at the last session of Congress, imposed a similar tax on marketing of tobacco in excess of allotments. The tax rate for cotton is 50 percent of the market value of the product. The rate for tobacco was set in the Act at 25 to 33⅓ percent of market values.

BASIC AGRICULTURAL COMMODITIES

It is only to " basic agricultural commodities " that provisions for production control through benefit payments can be applied. These, as originally listed in the Act, are wheat, cotton, corn, hogs, rice, tobacco and milk and its products. Amendments to the Act made at the last session of Congress included beef and dairy cattle, sugar, peanuts, rye, flax, barley, and grain sorghums as basic commodities.

These commodities are listed as basic for several or all of various reasons. Changes in their price strongly influence changes in the prices of other agricultural products. The United States produces an exportable surplus of some of them, and, because world prices declined sharply, their economic situation was relatively worse than that of others produced and consumed on a domestic basis. Another reason is that all of these commodities are put through some manufacturing process before they are ready for human consumption, and their production and distribution can be better regulated in these processing channels than could the production and distribution of commodities not so processed. Benefit payments on adjustment of a commodity are financed through taxes collected on the processing of the commodity.

Choice of methods for determining and making compensating payments for adjustment of production is largely within the discretion of the Secretary of Agriculture, except that such arrangements must be entered into voluntarily by the producers.

Under the Act, land may be leased in large areas, by States or regions, or from individual owners, and retired from the production of any crop. Restrictions may be prescribed on the alternative

use of such land, so that it may be used either to produce crops that do not compete with other commodities of which there is a surplus, or be planted to soil-improving or erosion-preventing crops.

The Secretary may, under the Act, determine what proportion of the total acreage of a given crop he will lease, or he may decide to designate and lease certain fields on an individual farm. Otherwise the tendency would be to lease and withdraw from production only the poorer or submarginal lands.

REDUCING MARKET VOLUME

It is also within the discretion of the Secretary of Agriculture to offer compensation in the form of benefit payments for reducing the amount of a commodity that is sent to market, instead of leasing land and withdrawing it from production.

To compensate producers for such reduction in their production for market, the Secretary may make benefit payments on that part of the commodity required for domestic consumption, "in such amounts as the Secretary deems fair and reasonable, to be paid out of any moneys available for such payments."

MODIFICATIONS AND COMBINATIONS

Numerous modifications and combinations of these two methods are possible under the Act and have, in fact, been employed in its administration in the programs now in effect for cotton, wheat, tobacco, corn and hogs, and sugar.

Under the 1933 cotton program, two methods of compensatory payments for reduction of output for market were provided. One was a rental payment based on productivity of the land. The other was the cotton option method, which permitted cotton growers to obtain by contract with the Secretary of Agriculture options on cotton owned by the Federal Government and to receive any profit obtained through sale of the cotton later. The growers could choose either a straight rental payment, or a combination of the rental and cotton option plans.

Through the operation of the 1933 program cotton acreage for that year was reduced by over 10 million acres, and production curtailed by more than 4 million bales. The reduction offset an unusually high average yield in 1933, which, without the program, would have made large additions to the already burdensome carryovers. Growers received for their crop prices approximately double the prices prevailing before the program went into effect, and cooperating growers, in addition, received 160 million dollars in rental payments and potential cotton option profits.

Under the 1934 program rental payments are 3½ cents per pound of the 1928–32 yield per acre on land left out of cotton production, and in addition, benefit payments of not less than 1 cent per pound will be made on the domestic consumption percentage of the crop of each farmer who cooperates. Rental payments under the program will total about 100 million dollars and the benefit parity payment 25 to 30 million dollars. Approximately 15 million acres have been taken out of cotton production under the program. Cotton exempt from taxes under the Bankhead Act totals 10 million bales.

A processing tax of 4.2 cents per pound is levied on processing of raw cotton to finance the program. The Act permitted a levy of compensating taxes on commodities competing with cotton. Compensating taxes imposed on jute fabric and paper used in the manufacture of large bags were abated on June 12.

The wheat program put into effect in 1933 reduced acreage seeded for 1934 production by approximately 7½ million acres, or 15 per cent, of that planted by cooperating growers in the base years 1928–32. In return, cooperating growers received benefit payments of 29 cents per bushel on that portion of their production during the base period that corresponded to the percentage of total production of wheat in this country domestically consumed as human food. That percentage was found to be 54 percent. The contracts signed by growers in 1933, stipulated acreage reduction in 1934 and 1935, since the 1933 acreage and output of wheat was drastically reduced by weather conditions. Benefit payments to cooperating growers under the 1933 program total 98 million dollars, financed by a processing tax of 30 cents per bushel.

The program for the 1934–35 crop year was planned on the same basis as that for the 1933–34 crop year. Payments will be 29 cents per allotted bushel, the processing rate is 30 cents per bushel, and the amount of reduction stipulated will not exceed 15 percent of the base.

The wheat program was adapted to and made part of the world accord on wheat, arrived at through international agreements concluded among both wheat-exporting and wheat-importing nations as an attack on the world problem of surplus and uneconomic wheat production.

Material gains for tobacco growers have been made through programs designed to bring production more nearly in line with requirements. Marketing agreements between the Secretary of Agriculture and domestic tobacco buyers have supplemented these programs.

Six production-adjustment programs are under way in the tobacco-growing industry, applying to six different types of tobacco: Cigar-leaf, flue-cured, Burley, dark air-cured, fire-cured, and Maryland. In these programs growers agree to reduce their base production by from 25 percent to 50 percent, depending upon the type of tobacco produced and the program for that type. Growers cooperating in the adjustment efforts receive benefit payments in accordance with the terms of their contracts which vary for the different types of tobacco.

Approximately one and one-quarter million farmers have signed contracts for adjusting corn-hog production in 1934. The contracts require a 25 percent reduction from the growers' average 1932–33 hog production, and a reduction of 20 percent from the 1932–33 corn acreage. Benefit payments are made at the rate of $5.00 per head on 75 percent of the 1932–33 hog production, and 30 cents per bushel for 20 percent of the 1932–33 corn production. The total of corn-hog benefit payments is expected to approximate 310 million dollars, which is financed from a processing tax on hogs which was scaled up to $2.25 per hundredweight on March 1, 1934, and 5 cents per bushel on corn.

A crop-control program for sugar beets and sugarcane has been put into effect in conjunction with the administration of the Costigan-Jones Act, which established sales allotments in the United States for continental producers, producers in the island territories, and producers in Cuba.

A processing tax of one-half cent per pound of raw value is applied at the first domestic processing of sugar beets and sugarcane. Processing and compensating taxes are expected to yield 63 million dollars. The tax is applied at the point of final production of direct-consumption sugar and other final products, such as refiners' syrup. Where direct-consumption sugar is imported, a compensating tax equal to the processing tax is paid upon its importation.

Approximately 20 million dollars will be distributed as benefit payments among growers of sugar beets and sugarcane in continental United States. The 48 million dollars remaining from processing tax collection will be expended for the benefit of agriculture generally or for reduction in the insular areas.

A program for the adjustment of beef cattle is being considered. Under emergency measures, cattle buying is being carried on in the drought stricken areas. Funds for this purpose are available from appropriations made under the Jones-Connally Act to aid adjustment of the cattle industry.

In addition to controlling production, a program for surplus removal also has been carried on. Wheat was sold for export at world market prices which are below domestic prices, and the differential paid out of processing taxes. Processing tax funds also were used to purchase surplus basic commodities for relief distribution.

PAYMENTS MAKE ADJUSTMENT POSSIBLE

Benefit payments are intended to make it possible for a farmer, acting in cooperation with other farmers and with the Government, to reduce his production without at the same time reducing his already inadequate income.

This reduction, in turn, makes it possible to balance the total production of the country with the effective demand for the goods produced and prevents waste of time, labor, and capital in producing for a market that will not return a fair price to the producer.

This balance. bringing about the restoration of farm buying power to the basis which it had in the pre-war period, is the objective toward which the Secretary of Agriculture, with the approval of the President and under the mandate of Congress, applies the powers conferred upon him under the production-adjustment provisions of the Agricultural Adjustment Act.

PROCESSING TAXES PROVIDE MONEY

Money must be provided for the adjustment payments to cooperating producers. The Adjustment Act provides that such payments are to be made "out of any moneys available for such payments." Section 12, subsection (a), appropriates—

out of any money in the Treasury not otherwise appropriated, the sum of $100,000,000 to be available to the Secretary of Agriculture for administrative expenses under this title and for rental and benefit payments made with respect

to reduction in acreage or reduction in production for market under Part 2 of this title. Such sum shall remain available until expended.

In addition, the National Industrial Recovery Act, approved by the President June 16, 1933, carrying an appropriation of $3,300,-000,000, provides (Section 220) that—

the President is authorized to allocate so much of said sum, not in excess of $100,000,000, as he may determine to be necessary for expenditures in carrying out the Agricultural Adjustment Act and the purposes, powers, and functions heretofore and hereafter conferred upon the Farm Credit Administration.

The Agricultural Adjustment Act, in Section 9 (a) provides that:

To obtain revenue for extraordinary expenses incurred by reason of the national economic emergency, there shall be levied processing taxes as hereinafter provided. When the Secretary of Agriculture determines that rental or benefit payments are to be made with respect to any basic agricultural commodity, he shall proclaim such determination, and a processing tax shall be in effect with regard to such commodity from the beginning of the marketing year therefor next following the date of such proclamation.

This processing tax is an excise tax paid by the processors—manufacturers—on the first domestic processing of the basic commodity on which it is levied. It is collected, like other excise taxes, by the Bureau of Internal Revenue, and is turned over to the United States Treasury. Money for the administration of the Adjustment Act and for the compensatory payments is drawn from the Treasury on the authority of the Secretary of Agriculture.

The collection of processing taxes and the expenditures of rental and benefit payments and other costs do not balance at all times, since the periods of heavy collection do not necessarily coincide with periods for heavy distribution. However, the budget estimates covering all the programs indicate that at the termination of the programs there will be a slight excess of collections over expenditures.

The volume of processing tax collections at a given city or in a given State does not mean that the residents of that city or that State actually contribute the taxes collected. This volume indicates only the degree of concentration of the processing plants and operations at the point of collection of the tax. Actual contribution of the processing tax comes in different amounts from all consumers of the finished product, from the processors themselves, or even in the form of deductions from the price paid to the producer. The distribution of the payments depends upon many factors in market conditions and the nature of the traffic in the commodity. Ordinarily all three sources contribute to the payment of the processing tax.

Since all processing taxes are paid into the Treasury and all benefit payments are drawn from the Treasury, the total proceeds of all processing taxes, and any other money available for the purpose, can be used for the payment of rentals or benefits. Growers of a given basic commodity are not necessarily entitled to receive as benefit payments the total sum derived from the processing tax on that commodity, nor are the payments to them legally limited to the amount collected in processing taxes upon their commodity.

The maximum amount of the tax which can be imposed (as of "the beginning of the marketing year" for that commodity) upon any commodity is the difference between the current average farm

price for that commodity and its "parity price"—that is, the price which it would have to bring in order to have the same purchasing power in terms of manufactured goods that farmers buy that it had in the 5 years before the World War, except in the case of tobacco for which the parity period is the years 1919–1928.

SUPPLEMENTARY TAX PROVISIONS

If the imposition of a processing tax upon a given commodity puts that commodity or the products derived from it at a disadvantage in competing with other commodities which may be substituted for it, the Secretary of Agriculture has power to impose an equivalent tax upon the competing commodity, either domestically produced or imported, in order to remove this disadvantage. Thus, if a processing tax levied upon cotton increases the price on cotton goods until they are at a disadvantage in competing with such products as rayon, silk, or wool, the Secretary of Agriculture has power to levy compensating processing taxes upon the latter-named commodities and restore the competitive basis.

Likewise, when there is a tax upon the processing of any commodity produced in the United States there is automatically levied upon the products from the same commodity or its products, if imported, an equivalent tax in addition to any tariff which may already be in effect.

No processing tax is imposed upon the processing of any commodity by the producer of the commodity, if the goods are to be used by his own family, household, or employees. Goods which the producer himself processes for sale may be exempted from the processing tax if the Secretary holds that it is not necessary, for the purposes of the Act, to apply such taxes.

The processing tax on a basic commodity is refunded if the products of the commodity are exported, or if they are delivered to any organization for charitable distribution or use.

Suitable provisions for applying the tax to floor stocks on hand when the tax is announced are included in the Act and in the regulations issued by the Secretary of Agriculture.

TAX RATE IS ADJUSTABLE

If the Secretary of Agriculture has reason to believe that the imposition of the maximum processing tax on a commodity will check its consumption and cause a surplus of the commodity to be accumulated, he may fix the tax at less than the maximum provided for in the Adjustment Act, provided he first holds public hearings to ascertain the facts.

The Secretary of Agriculture may alter the rate of the tax at such intervals as he finds necessary.

The tax will terminate at the end of that marketing year for a given commodity during which the Secretary of Agriculture announces that he will cease to make rental or benefit payments.

Regulations for collecting the tax are issued by the Bureau of Internal Revenue.

The "first domestic processing", on which the taxes are levied, is defined in Section 9 (d) of the Adjustment Act as follows:

(1) In the case of wheat, rice, and corn, the term "processing" means the milling or other processing (except cleaning and drying) of wheat, rice, and corn for market, including custom milling for toll as well as commercial milling, but shall not include the grinding or cracking thereof not in the form of flour, for feed purposes only.

(2) In case of cotton, the term "processing" means the spinning, manufacturing, or processing (except ginning) of cotton; and the term "cotton" shall not include cotton linters.

(3) In case of tobacco the term "processing" means the manufacturing or other processing (except drying or converting into insecticides and fertilizers) of tobacco.

(4) In the case of hogs, the term "processing" means slaughter of hogs for market.

(5) In the case of any other commodity, the term "processing" means any manufacturing or other processing involving a change in the form of the commodity or its preparation for market, as defined by regulations of the Secretary of Agriculture; and in prescribing such regulations the Secretary shall give due weight to the customs of the industry.

MARKETING-AGREEMENT PROVISIONS

Under the marketing-agreement section of the Adjustment Act the Secretary of Agriculture is empowered to approve and to enter into agreements among associations of producers, processors, and distributors of any agricultural commodity or its products in interstate or foreign commerce. This section of the Adjustment Act is not limited to the basic agricultural commodities that are subjected to the production-control provisions of the Act.

Agreements may extend from the producer to the consumer and may touch every point in the chain of distribution. Trade agreements made under the Adjustment Act do not come under the antitrust laws. They may regulate practices as to prices, production quotas, supply areas, and relationships among various branches of trade. They are designed to prevent "cut-throat" competition and to assure fair treatment for producers, distributors, and consumers of farm products or goods made from farm products.

When the Secretary of Agriculture deems it necessary he may effectuate these agreements by licensing all persons or concerns engaged in an industry covered by such an agreement, and may make the terms of the license the same as those of the agreement. Methods are provided for revoking or suspending the licenses of members of the industry who do not adhere to the terms of the licenses, and there are penalties for continuing to engage in the industry without a license. In his discretion, the Secretary may license the participants of an industry handling, in interstate or foreign commerce, an agricultural commodity or its products, without any marketing agreement having been established.

Milk licenses of this type, now in effect, set a minimum price to producers for approximately one-fourth of the fluid milk consumed by the nonagricultural population. Marketing agreements are increasing returns to growers of all important types of tobacco.

Nearly two score other commodities, such as fruits, vegetables, and nuts, are covered by such agreements and licenses, and it has been estimated that during the 1933–34 marketing season they have increased returns to growers of such commodities by approximately 30 million dollars.

Under an Executive order issued June 26, 1933, the work of the Agricultural Adjustment Administration was coordinated with the

National Recovery Administration in so far as codes of fair competition for foods and foodstuffs were concerned, while code provisions relating to wages, hours and conditions of labor remained with the National Recovery Administration. The order was amended by an Executive order issued January 8, 1934, which transferred to the National Recovery Administration most of the codes of fair competition originally placed under the jurisdiction of the Agricultural Adjustment Administration. Under the amended order the Secretary of Agriculture retains jurisdiction, except for labor provisions, over codes for commodity exchanges, and for industries and trades in general which are principally engaged in processing and storing agricultural commodities up to and including the first process.

TERMINATION OF THE ACT

Because the Agricultural Adjustment Act was drawn to meet a national economic emergency, it shall cease to be in effect, according to its own terms, " whenever the President finds and proclaims that the national economic emergency in relation to agriculture has been ended; and pending such time the President shall by proclamation terminate with respect to any basic agricultural commodity such provisions of this title as he finds are not requisite to carrying out the declared policy with respect to such commodity."

Agriculture has made distinct gains towards parity since the Agricultural Adjustment Act was put in operation, and benefit payments have constituted an important factor in improving farm income. During the first nine months that benefit payments were distributed (August, 1933 to April, 1934 inclusive), the purchasing power of farm income was 25 percent higher than in the corresponding nine-months period of 1932–33. Income was 38 percent larger, but the exchange value of farm products was somewhat reduced by higher prices farmers paid for industrial commodities, so that the net gain in purchasing power was 25 percent.

One factor in the gain of purchasing power was increased market prices for farm commodities resulting from adjustment of production, a part of which was accomplished by the Agricultural Adjustment Administration programs. Another factor was the distribution of benefit payments, which contributed about one fifth to the increased purchasing power of agricultural income.

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